

To: Paul Osborn (Chairman)	Lesley Greensmyth	Suzanne Rutland-Barsby
David Andrews	Steven Heather	Mary Sartin
Ken Ayling	Calvin Horner	Marshall Vance
Susan Barker	Ross Houston	Terry Wheeler
John Bevan	Heather Johnson	Holly Whitbread
Janet Burgess	Denise Jones	John Wyllie
Nesil Caliskan	Christopher Kennedy	2 x Vacancies
Rokhsana Fiaz OBE	Graham McAndrew	Ben Radbone (EA)
David Gardner	Gordon Nicholson	Mark Pearson (C&RT)
Mike Garnett	Dilip Patel	

A meeting of the **ADDITIONAL AUTHORITY** (Quorum - 7) will be held by remote access on:

THURSDAY 10 MARCH 2022 AT 13:30

at which the following business will be transacted:

A G E N D A

Part I

1 To receive apologies for absence

2 **DECLARATION OF INTERESTS**

Members are asked to consider whether or not they have disclosable pecuniary, other pecuniary or non-pecuniary interests in any item on this Agenda. Other pecuniary and non-pecuniary interests are a matter of judgement for each Member. (Declarations may also be made during the meeting if necessary.)

3 **MINUTES OF LAST MEETING**

To approve the Minutes of the meeting held on 20 January 2022 (copy herewith)

4 **PUBLIC SPEAKING**

To receive any representations from members of the public or representative of an organisation which concerns any area of the Authority's business. Subject to the Chairman's discretion a total of 20 minutes will be allowed for public speaking and the presentation of petitions at each meeting.

5 PENSIONS ADMISSION PROCESS Paper A/4316/22

Presented by Victoria Yates, Head of Human Resources

**6 NATIONAL SCHEME FOR AUDITOR APPOINTMENTS Paper A/4315/22
2023/24 TO 2027/28**

Presented by Keith Kellard, Head of Finance

7 DATE OF NEXT MEETING OF THE AUTHORITY

To note that the next meeting of the Authority will be held on Thursday, 28 April 2022 at 2.00pm.

8 Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency by reason of special circumstances to warrant consideration.

9 Consider passing a resolution based on the principles of Section 100A(4) of the Local Government Act 1972, excluding the public and press from the meeting for the items of business listed on Part II of the Agenda, on the grounds that they involve the likely disclosure of exempt information as defined in those sections of Part 1 of Schedule 12A of the Act as are listed on the Agenda. (There are no items currently listed for consideration in Part II.)

2 March 2022

**Shaun Dawson
Chief Executive**

LEE VALLEY REGIONAL PARK AUTHORITY

**AUTHORITY MEETING
20 JANUARY 2022**

Members	Paul Osborn (Chairman)	Heather Johnson
in remote presence:	David Andrews	Denise Jones
	Ken Ayling	Christopher Kennedy
	Susan Barker	Gordon Nicholson
	John Bevan	Dilip Patel
	Janet Burgess MBE	Suzanne Rutland-Barsby
	Nesil Caliskan	Mary Sartin
	Rokhsana Fiaz OBE	Marshall Vance
	Mike Garnett	Terry Wheeler
	David Gardner	Holly Whitbread
	Lesley Greensmyth	John Wyllie
	Steven Heather	Richard Thake (Deputy for Graham McAndrew)
	Calvin Horner	Ben Radbone (Environment Agency)
	Ross Houston	Mark Pearson (Canal & River Trust)

Apologies Received From: Graham McAndrew

Officers	Shaun Dawson	- Chief Executive
in remote presence:	Beryl Foster	- Deputy Chief Executive
	Dan Buck	- Corporate Director
	Jon Carney	- Corporate Director
	Keith Kellard	- Head of Finance
	Stephen Bromberg	- Head of Communications
	Michael Sterry	- Senior Accountant
	Sandra Bertschin	- Committee & Members' Services Manager
	Lindsey Johnson	- Committee Services Officer

Also in remote presence: **Matt Bowmer – S151 Officer (London Borough of Enfield)**
Ian Kemp – Deputy Member (East Herts District Council)
Laurie Elks – Member of the public

Part I

21 DECLARATIONS OF INTEREST

There were no declarations of interest.

22 MINUTES OF LAST MEETING

THAT the minutes of the meeting held on 21 October 2021 be approved and signed.

23 PUBLIC SPEAKING

No requests from the public to speak or present petitions had been received for this meeting.

The report was introduced by the Chief Executive, key points included:

- The Wave – An extension to the Exclusivity Agreement had been approved at Executive Committee earlier today. The project was currently in the pre-planning stage, with good dialogue with the London Borough of Enfield. The provisional timeline has an opening of summer 2024. It was noted that there were significant challenges to the planning application as the site was on Metropolitan Open Land. However, the Authority had experience of this with the redevelopment of the Ice Centre and The Wave at Bristol had been built on Green Belt land.
- Waltham Abbey Gardens – A partnership with Waltham Abbey Town Council had been successful in an expression of interest to the Heritage Lottery Fund for restoration work on the ancient monument, improved interpretation and improved biodiversity.
- Leisure Services Contract – This was coming together well. Greenwich Leisure Limited will give a presentation to Members next month.
- London Legacy Development Corporation (LLDC) Transition Plan - LLDC was in consultation with the GLA, 4 local boroughs and other key stakeholders, such as the Authority, to determine the governance and estate management arrangements for Queen Elizabeth Olympic Park following repatriation of planning powers to the 4 local boroughs in 2024.
- UCI Track Cycling Champions League – This took place in December with two events which were a great success.
- Work Programme – Appendix B highlighted projects which will invest in open space over the coming two years which equated to £2.4million, many of these projects would be funded through S106 money. A Member pointed out that one of the projects on Page 13 did not have a budget. The Chief Executive responded stating that it was an omission and was likely to cost in the region of £1-2000.

A Member expressed approval that Spitalbrook and Middlesex Filter Beds were included in the Work Programme. The Chief Executive added that the Middlesex Filter Beds project will be delivered in the coming year. He would be meeting with senior officers at Broxbourne Borough Council next week to discuss Spitalbrook and how to take this project forward jointly.

A Member asked when the masterplan for Eton Manor with University College London would come forward. The Chief Executive responded stating that a report would be coming to Members shortly looking at options.

A Member noted that The Wave in Bristol was using solar panels and asked if anything similar was being considered for Picketts Lock. The Chief Executive responded stating that they were looking at sustainable energy solutions.

(1) the report was noted.

The report was introduced by the Head of Communications, informing Members that subject to budget allocation, £44,000 was proposed for this project.

A Member commented that there was no mention of the four day Jubilee Bank Holiday and that this would be an ideal time to have events as people would be off work and looking for things to do. The Head of Communications responded stating that this was something he would look into.

A Member stated that he was pleased to see the Community Access Fund included. The Chairman added that this fund was to help people from further away or with limited resources to access the Park. He suggested that if Members knew of any organisations which might benefit from this fund, they should provide details on how to bid for it.

A Member stated that it would also be the 10 year anniversary of the Paralympic Games and asked if we were doing anything for it. The Head of Communications responded stating that there would be two exhibitions at Lee Valley VeloPark.

A Member commented that he was pleased that there would be a temporary exhibition and asked if it would be possible to have a permanent exhibition. The Chairman responded stating that the Authority was keen to do this, but it depended on the makers of the temporary exhibition being willing to lend it to us. The Head of Communications added that the LLDC was looking into this.

- (1) the plan outlined in paper A/4311/22, subject to the budget allocation of £44,000 being approved as part of the overall 2022/23 Authority budget in the Budget and Levy paper elsewhere on this agenda, was approved.**

Ben Radbone and Chris Kennedy left during the next item.

26 2022/23 REVENUE BUDGET AND LEVY

Paper A/4312/22

The report was introduced and a presentation given by the Chief Executive, Head of Finance and the Section 151 Officer, key points included:

- there was a small surplus after carry forwards of the original budget; an operational revenue surplus of £0.6million; a capital programme of £3.5million; a venue improvement programme financed from a capital receipt; and cash reserves of £7.4million;
- there were a number of budget challenges including recovery from Covid; rebuilding cash reserves; creating resilience; implementing the Leisure Services Contract; enhancement of venues and open spaces; generating additional income through investment projects; high inflation; and utility costs;
- the draft budget will see a 0% change in the Levy; a Leisure Services Contract management fee of £2.171million; Leisure Services Contract contingency of £400,000 (Utilities, IT, Pension); Increase in revenue from venue Investments; Inflation increases; utility costs fixed until October 2022; and a surplus from 2021/22 with reserves above the agreed level;
- risks to reserves include further Covid impacts; inflation; not delivering return on investments; and general economic climate.

The Chairman advised Members that the recommendation from the Executive Committee earlier today was to have no change to the Levy for 2022/23, maintain general reserves policy at £3-4million and approval of the growth and savings schedule.

The Section 151 Officer assured Members that the budget was cautious, prudent and realistic. Whilst there were some risks around inflation, the Leisure Services Contract and utilities, the general reserves policy at £3-4million was appropriate.

The Labour group expressed concerns over the budget and suggested a 2% Levy increase. Their reasons for this were concerns surrounding inflation, staffing costs, risk over the Leisure Services Contract, delivery of projects, uncertainty over Covid, pension funding increases, and utility prices. They also felt that staff should be rewarded for their work during an exceptional year and a 2% increase to the Levy would help to fund pay rises.

The Chairman responded stating that the budget accounted for pressures and included contingencies, we also have substantial growth coming up in future years. He went on further to state that any additional money from a Levy increase would only go into our general reserves. The Vice Chairman added that as an Authority we had a history of getting our budget right every year and that the general reserves was sufficient.

On a vote of 15 for and 10 against the following was agreed:

- (1) the proposed Levy of 0% increase for 2022/23;**
- (2) additional expenditure, income and efficiencies as set out in Appendix C to Paper E/751/22 attached as Annex A to Paper A/4312/22;**
- (3) a net revenue budget of £9.8m, as set out in paragraph 28 in Paper E/751/22 attached as Annex A to Paper A/4312/22; and**
- (4) a medium term general reserves policy of £3-4million was approved.**

27 PROPOSED CAPITAL PROGRAMME 2021/22 (REVISED) TO 2026/27 Paper A/4313/22

The report was introduced by the Head of Finance who explained that the current capital programme was approved by the Executive Committee on 17 December 2021, this report brought together the revisions and latest information on estimated cost and timing of projects through to 2026/27.

A Member asked what was meant by 'hostile vehicle mitigation'. The Corporate Director responded stating that it referred to terrorist attacks and that the plaza area of Lee Valley VeloPark was a risk for this.

- (1) the revised capital programme for 2021/22 (revised) to 2026/27 as set out in Appendix A to Paper E/750/22 attached as Annex A to Paper A/4313/22; and**
- (2) the proposed capital funding to meet the planned capital programme as set out in Appendix B of Paper E/750/22 attached as Annex A to Paper A/4313/22 was approved.**

Rokhsana Fiaz left during the next item.

28 CAPITAL STRATEGY 2021/22 TO 2025/26

Paper A/4314/22

The report was introduced by the Head of Finance, who explained that this paper had been approved by Executive Committee earlier today.

- (1) the Capital Strategy as set out in Paper E/749/22 and Appendices B-D to that report attached as Annex A to Paper A/4314/22; and**
- (2) the Prudential Indicators for 2021/22 to 2025/26 as set out in Appendix A to Paper E/749/22 attached as Annex A to Paper A/4314/22 was approved.**

Dilip Patel left during the next item.

29 FOOD SAFETY POLICY

Paper A/4309/22

The report was introduced by the Corporate Director who explained to Members that this policy was approved by Executive Committee on 17 December 2021.

A Member asked if there was a complaints procedure within the policy. The Corporate Director responded stating that the Authority had a separate complaints procedure.

- (1) the draft Food Safety Policy and associated procedure for adoption was approved.**

John Wyllie, Holly Whitbread and Marshall Vance left during the next item.

30 ICE CENTRE PROJECT UPDATE

The Corporate Director gave a presentation, key points included:

- a timeline of the progress of construction of the new Ice Centre;
- preparation of site – impacts to wildlife have been minimised via careful timing of site works and supervision of vegetation clearance;
- at the start of the demolition an event was held with local political and community stakeholders. The event unveiled artwork on the hoarding created by East London artist, Alice Druitt who worked with local school children to produce it;
- piling works started on 25 October, coinciding with this, foundations were placed on top of the piles and in early November the foundations for the twin pads were excavated with reinforced cages constructed in preparation for this;
- from 15 November steel frames began to form the building structure. The target date for roof works to start was January 2022;
- 95% of the concrete debris and former building components have been recycled;
- to date, all works have remained within noise and dust limits. Community Liaison Meetings have been taking place since works commenced, with a local councillor stating that 'it has been the best run project from a community communication perspective';
- a timeline of construction for the next 6 months.

A Member commented that they were impressed by the artwork on the hoarding and asked if we were going to find a way to keep it. The Corporate Director responded stating that they were thinking of various ways that it could be kept. He added that it was far too good

to lose and it is a good way to make the community feel like the Ice Centre belongs to them and to instil pride.

A Member asked if we had suffered from any material or labour shortages. The Corporate Director responded that we had not as we had ordered materials for the construction of the building early on. There might be a problem when we come to fit out the interior, but it was too soon to tell at the moment. The Head of Communications added that we have taken on apprentices who live in the local area to learn about all aspects of building construction. This was one of our commitments in S106 funding.

The Chairman thanked the Corporate Director and all those who were helping to deliver the Ice Centre project.

31 NEXT MEETING OF THE AUTHORITY

It was noted that the next meeting of the Authority will be held on Thursday, 28 April 2022 at 2.00pm.

Chairman

Date

The meeting started at 2pm and ended at 3.50pm

PENSIONS ADMISSION PROCESS

Presented by the Head of Human Resources and Head of Finance

SUMMARY

As Members are aware, Greenwich Leisure Limited (GLL) will, from 1 April 2022 manage the Authority's six sports venues (Lee Valley Athletics Centre, Lee Valley Hockey & Tennis Centre, Lee Valley Ice Centre, Lee Valley Riding Centre, Lee Valley VeloPark and Lee Valley White Water Centre) under a Leisure Services Contract (LSC) for 10 years with a possible 5 year extension.

The Authority's intention is that staff should in the main be broadly unaffected by the TUPE transfer; and that current employee terms and conditions should be kept broadly intact, including pension provision.

The Authority currently operates the Local Government Pension Scheme (LGPS), which is administered by the London Pensions Fund Authority (LPFA). The intention is that GLL will become an admitted body into the Local Government Pension Scheme. Barnett Waddingham has, on behalf of the London Pensions Fund Authority, produced a pension contribution and bond report for consideration by the Authority. This report has been made available to GLL (copy attached at Appendix A to this report).

The London Pensions Fund Authority have produced a draft admission agreement, a copy of which is attached as Appendix B to this report.

This report sets out the recommended pension contribution rate for GLL, the indemnity and bond options available, the draft admission agreement and factors to be taken into account.

RECOMMENDATIONS

- Members Approve:
- (1) that Lee Valley Regional Park Authority enters in to the admission agreement as described in paragraphs 7 to 12 of this report;
 - (2) the fixed pension contribution rate for GLL as 19.5% as detailed in paragraphs 13 to 18.

BACKGROUND

- 1 Members have previously agreed that the Local Government Pension Scheme (LGPS) pension provision via an admission agreement with London Pensions Fund Authority (LPFA), will be a pass through closed pension scheme (Paper E/64/19) for the new Leisure Services Contract (LSC).
- 2 A pass through arrangement is a risk sharing arrangement between the letting authority (LVRPA) and the new employer (GLL) such that the letting authority is ultimately responsible for any deficit in respect of the transferring Members.
- 3 A closed agreement is closed so that only the original transferring membership joins the new employer's section of the Fund and is not open to new staff employed on the contract.
- 4 The Authority's existing pension was 108% funded at the last triennial valuation in 2019.
- 5 The Authority's current contribution rate assessed through the last triennial valuation (2019) is 15.6%. This is built into the Authority's existing budget and was the actuary's assessment of how future and past liabilities will be funded by the Authority.
- 6 The Authority's next triennial valuation will be in 2023.

ADMISSION AGREEMENT

- 7 The Authority previously entered into an Admission Agreement with the Lee Valley Leisure Trust Limited to enable it to obtain admitted body status and the intention is to do the same with GLL. It is a tripartite agreement between the Authority, the LPFA and GLL.
- 8 The draft admission agreement is attached at Appendix B to this report and has been shared with GLL, who are comfortable with this draft. Under the agreement, LPFA and the Fund's actuary retains the ability to review contribution rates at each actuarial valuation. However, LPFA has indicated that there are several different ways that contributions could be managed in practice, and that they are comfortable for LVRPA to determine its preferred approach. Our recommendation is that the pension provision will be a pass-through closed pension scheme.
- 9 A pass through agreement is one in which the contribution rate is fixed at the outset and not recalculated during the remainder of the contract. Importantly it also means that the new employer (GLL) would not be required to fund any deficit should they cease participation in the Fund.
- 10 A pass through arrangement is a risk sharing arrangement between the letting authority (LVRPA) and the new employer (GLL) such that the letting authority (LVRPA) is ultimately responsible for any deficit in respect of the transferring members.
- 11 At the start of the LSC the pensionable service of the eligible employees will transfer to GLL. As the contract is to be let with pass through provisions, any deficit in respect of the transferring members is ultimately the responsibility of the Authority.

- 12 On termination of the admission agreement, provided all contributions have been made as required and any additional costs or expenses have been paid, GLL will have no further responsibility for the pensions obligations. In particular, GLL will not be responsible for any funding deficit, or entitled to receive any surplus, that has emerged during the contract.

PENSION CONTRIBUTION RATE (pass-through rate)

- 13 The Authority's current contribution rate assessed through the last triennial valuation (2019) is 15.6%.
- 14 The pension contribution and bond report attached at Appendix A to this report does not contain a recommended contribution rate, but calculates the cost of future accrual in respect of the transferring employees, which has been calculated as 19.5%.
- 15 Members have previously agreed that this will be a closed scheme and under a closed agreement the average age of the membership is typically expected to increase as the existing members get older since there are no new members joining. The cost of accrual would therefore be expected to increase as the membership gets older so the calculated rate is based on the average cost of benefits over the whole contract for this group of members.
- 16 The contribution rate to be paid by the new employer is to be agreed by the Authority and GLL as part of their commercial negotiations but the actuary report recommends that it is not lower than their calculated cost of accrual, which is 19.5%.
- 17 Therefore, officers recommend a contribution rate of 19.5% for GLL under the admission agreement.
- 18 Employees pay contributions into the Fund at rates as set out in the Regulations.

ALTERNATIVE OPTIONS

19 OPEN SCHEME

An alternative option would be to operate an Open Scheme, whereby the pension scheme will be open to new joiners throughout the contract term. This will mean that the average age of membership may remain at a lower level, and the liabilities would not potentially increase as much as a closed scheme. This would result in a lower accrual rate, and in turn a lower contribution rate.

An actuarial assessment was that the contribution rate for an open scheme would be 16.6%. However, this was assessed on the scheme being fully open to new members, whereas in reality the Authority would look to put restrictions on which new members could actually join, and GLL would likely not offer this option due to higher costs than in their own scheme.

Therefore, it would operate more like a closed scheme, but with the lower contribution rate, more likely to result in a scheme deficit at contract end, with a potential large liability flowing back to the Authority.

20 CLOSED SCHEME WITH POOLED FUNDS

Under this option the Authority's pension scheme and the ringfenced GLL scheme, would be pooled together. GLL would contribute based on a rate of 19.5% as agreed, and the fund revalued as a whole at every triennial valuation.

This would mean that any over, or under, funding would flow back to the Authority every three years, and the contribution rate would be impacted by a surplus or deficit on the GLL part.

21 CLOSED SCHEMES BOTH SUBJECT TO TRIENNIAL VALUATIONS

A further two options relate to having the schemes open to Triennial valuations, with the whole scheme being valued as one, and LVRPA and GLL paying the same contribution rates; or the two parts of the scheme being valued independently, and contribution rates being independent of each other.

Whilst this may appear to be a prudent approach, it will mean that the GLL contribution rate will change four times during the 10 year contract term (2022, 2023, 2026 and 2029) and result in uncertainty over future management fees, and having to revisit and revise for every rate change.

This places a greater degree of risk of exposure on the Authority, than having a fixed rate for the contract term.

- 22 Officers, in discussion with LPFA, therefore recommend the approach of a fixed contribution rate, of 19.5%, for the contract term, with the Authority's rate calculated independently of the surplus/deficit in the GLL fund.

IMPACT OF THE CONTRIBUTION RATE ON THE LEISURE OPERATORS BASE TRADING ACCOUNT (LOBTA)

- 23 The Management Fee payable between LVRPA and GLL is set out in the Leisure Operators Base Trading Account (LOBTA). This set out how much will be paid to each party for the delivery of the LSC.
- 24 Members agreed on 21 October 2021 (Paper A/4308/21) that the Management Fee for Year 1 (2022/23) would be £2,170,678. The Management Fee payable for Years 2 to 10, was based on the GLL bid, amended for the Ice Centre redevelopment, but subject to further agreement.
- 25 The costed pension contribution rate in Year 1 was that of the Authority – 15.6%, as that was the best known reference rate at October 2021. With the increase to 19.5%, this has been calculated as an additional £94,000. A contingency provision of £100,000 was included in the 2022/23 budget when this was set in January 2022 (A/4312/22) so has been fully budgeted for.
- 26 The original bid documentation stated that the pension contribution rate should be calculated at 12.7%, as this was the rate that Lee Valley Leisure Trust Limited were paying for the duration of the LSC; April 2015 to March 2020. Therefore, the GLL LOBTA Years 2 to 10 includes pension contributions at this lower rate.
- 27 However, the LOBTA for years 2 to 10, is also costed on the anticipated required establishment, and TUPE listing, as at March 2019. Since the transfer

on venues back to the Authority on 1 April 2020, officers have been able to reassess the TUPE list, and establishment, in line with changes specifically around Support Services, but also at venues, and have identified a significant level of change.

- 28 Officers requested that GLL revise the Employee Calculations included in the LOBTA in light of the increase to the pension fund contribution rate, and changes to the operational establishment requirements from April 2022.

This is expected to result in a net saving against the Management Fee over the term of the LSC, but the LOBTA for Year 2 to 10 is still subject to separate approval.

INDEMNITY OR BOND

- 29 The Authority has provided a provisional list of employees expected to be transferred under TUPE to GLL. The LPFA have been working with the actuary and legal advisors to evaluate the future liability that needs to be underwritten.

- 30 GLL will need to assess the level of risk to the Fund should their participation within the LPFA cease due to, for example, insolvency, winding up or liquidation. If GLL ceases to participate in the LPFA for any reason then a cessation valuation will be completed by the LPFA Actuary.

- 31 The level of the bond recommended by the LPFA actuary is between £240,000 and £337,000 for a three year period, when it should be reviewed.

- 32 The level of the bond is calculated to provide protection against costs arising in some or all of the following areas on the cessation of the new employer within the Fund:

- Strain Costs - These arise as a result of immediate pension benefits becoming payable to relevant staff who could be made redundant or retired for reasons of business efficiency, staff taking flexible retirement, or the employer waiving the early retirement reduction for early payment of a member's benefits;
- Unpaid Contributions or Expenses - These may include unpaid normal employer contributions, unpaid additional employer contributions in respect of early retirements, and expenses associated with the premature termination of the admission agreement.

- 33 The under-writing by the Authority is deemed as sufficient and the requirement for a bond waived. GLL would not be required to fund any deficit should they cease participation in the Fund as the liability will sit with the Authority.

- 34 It is important to note that at this point in time the Authority, as a scheme employer in the LPFA, carries all the responsibility for pension liabilities. If the Authority wished to transfer this risk to GLL, a bond would be required by GLL which in turn would translate into an increase in the Management Fee. Currently, the recovery of any deficit is met through the triennial valuation and revision of existing pension contributions over a longer period of time. The Authority is currently of the view that the current and any future deficit can be met from earmarking revenue reserves up to the value of the bond/indemnity; and by future adjustments to the contribution rate as directed through the triennial valuation (which is how the Authority has managed the pension deficit

up to this point).

ENVIRONMENTAL IMPLICATIONS

- 35 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 36 The financial implications are considered within the main body of the report alongside the detailed contribution and bond report set out in Appendix A of this report.
- 37 If a fixed contribution rate for the duration of the LSC is not agreed, there may be a need to review the Management Fee calculation, at least every three years, and potentially annually. This will put more financial risk back on the Authority.

HUMAN RESOURCE IMPLICATIONS

- 38 The human resource implications are considered within the main body of the report alongside the detailed contribution and bond report set out in Appendix A of this report.

LEGAL IMPLICATIONS

- 39 The legal implications are set out in the body of the report.

RISK MANAGEMENT IMPLICATIONS

- 40 The main risk for the Authority relates to any accrued deficit that may have arisen if the contract were to terminate as this proposal leaves the Authority underwriting the risk. This can be mitigated by ensuring the bond contribution is accounted for during the contract. It is also important to note that this risk is not new and is currently with the Authority at present and has been managed successfully in the past through the Authority's forward financial planning processes.

EQUALITY IMPLICATIONS

- 41 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND REPORTS

None

PREVIOUS COMMITTEE REPORTS

Executive	E/598/18 (part 2)	New Leisure Service Contract – Shadow Bid, Affordability	23 Nov 2018
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Executive	E/614/19	Threshold, Investment Strategy, Pensions, Financial Waiver and Negotiable Areas Leisure Services Contract – Tender Process Update	21 Mar 2019
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APPENDICES ATTACHED

Appendix A Barnett Waddingham Contribution and Bond Report – December 2021
Appendix B Draft Admission Agreement

LIST OF ABBREVIATIONS

LVRPA	Lee Valley Regional Park Authority
GLL	Greenwich Leisure Limited
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
TUPE	The Transfer of Undertakings (Protection of Employment) Regulations 2006

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London Pensions Fund Authority

Pension Fund

(403) Lee Valley Regional Park Authority

Greenwich Leisure Limited

Pensions information as at 1 April 2022

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Introduction

We have been asked by London Pensions Fund Authority, the administering authority for the London Pensions Fund Authority Pension Fund (the Fund), to advise the administering authority by providing pensions information required in respect of eligible employees transferring their employment from Lee Valley Regional Park Authority to a new employer, Greenwich Leisure Limited.

Although this report is addressed to and is provided for use by the administering authority, it will usually be commissioned by the new employer. The report may be shared with the letting authority, new employer or its advisers, provided that it is done so in whole. In particular, the administering authority may allow the new employer to use the results of this report in the risk assessment that a new employer must carry out if it becomes an admission body in the Fund.

The pension arrangements for the eligible employees transferring their employment from the letting authority to the new employer are covered by the Transfer of Employment (Pension Protection) Regulations 2005. The Fund participates within the Local Government Pension Scheme (the LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

We have taken account of current LGPS Regulations (as amended) as at the date of this report.

On 13 May 2021 the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. The statement confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. The Government's intention is that regulation will come into force on 1 April 2023, and draft regulations are expected later in 2021. An allowance consistent with that adopted for the Fund's 31 March 2019 valuation has been made for the current uncertainties in LGPS benefits, details of which can be found in Appendix 1.

Purpose of the report

This report sets out the pensions-related issues to be considered by the new employer assuming it participates in the LGPS as an admission body in the Fund with a pass through admission agreement.

This report provides:

- consideration of the cost of accrual and the pass through rate to be paid by the new employer
- information on the key risks to the new employer upon joining the Fund
- an assessment of the risks associated with the early termination of the admission agreement as required by Part 3 of Schedule 2 of the Regulations
- details of the recommended level of the bond to be put in place, if required

Participation in the LGPS comes with financial commitments and responsibilities and we have included a description of some of these in this report.

Key information

The following table sets out the key information regarding the arrangement with the new employer assuming it participates as an admission body in the Fund:

Key information	
Date of admission	1 April 2022
Administering authority	London Pensions Fund Authority
Letting authority	Lee Valley Regional Park Authority
Type of agreement	Pass through
Open/closed agreement	Closed
Expected duration of contract	10 years with a possible 5 year extension

In Appendix 2 we discuss the different roles of the letting authority and the administering authority.

Admission body route with pass through provisions

In this section we consider the issues should the new employer become an admission body with pass through provisions within the Fund under Part 3 of Schedule 2 of the Regulations.

A pass through agreement is one in which the contribution rate is fixed at the outset and not recalculated during the remainder of the contract. Importantly it also means that the new employer would not be required to fund any deficit should they cease participation in the Fund. However, in most cases the new employer would still be expected to pay for the cost of any enhancements to members' benefits, including those payable via early retirement redundancies as well as meeting contributions payable.

A pass through arrangement is a risk sharing arrangement between the letting authority and the new employer such that the letting authority is ultimately responsible for any deficit in respect of the transferring members. Depending on the details of the contract, it might be that the pass through rate or the contract pricing changes throughout the contract based on future assessments of the cost of accrual.

Funding at the start of the contract

At the start of the contract the pensionable service of the eligible employees will transfer to the new employer. As the contract is to be let with pass through provisions, any deficit in respect of the transferring members is ultimately the responsibility of the letting authority.

Funding at the end of the contract

On termination of the admission agreement, provided all contributions have been made as required and any additional costs or expenses have been paid, the new employer will have no further responsibility for the pensions obligations. In particular, the new employer will not be responsible for any funding deficit, or entitled to receive any surplus, that has emerged during the contract.



Results

Ongoing cost of accrual

Please note that this report does not contain a recommended contribution rate. Instead, we have calculated the cost of accrual and it is up to the parties involved to agree a contribution rate. In the Regulations, the cost of accrual is defined as the primary rate.

The calculated closed cost of future accrual in respect of the transferring employees is **19.5% of payroll p.a.**

The admission agreement will be in respect of the eligible employees and can either be open to new staff employed on the contract (an open agreement), or closed so that only the original transferring membership joins the new employer's section of the Fund (a closed agreement). We understand this is a closed agreement.

Under a closed agreement then the average age of the membership is typically expected to increase as the existing members get older since there are no new members joining. The cost of accrual would be expected to increase as the membership gets older so the calculated rate is based on the average cost of benefits over the whole contract for this group of members.

The results of our calculations are based on the methods and assumptions set out in Appendix 1; should the assumptions change then the cost of accrual calculated will also change. For example, adding 0.1% to the discount rate assumption has the effect of reducing the closed cost of benefits by about 0.7% of payroll p.a.

Paying the appropriate closed cost of accrual is therefore one option.

Alternatively, where there are pass through provisions in place it is sometimes the case that the letting authority may wish to be compensated for the additional risk that they are taking on. This might result in the new employer paying a higher rate than they would have under a standard contract with no pass through provisions or it may be that the new employer pays this contribution rate but the contract price will then reflect that the pensions risk is not transferring to the new employer.

Ultimately, the contribution rate to be paid by the new employer is to be agreed by the letting authority and new employer as part of their commercial negotiations but we recommend that it is not lower than our calculated cost of accrual as set out above. This lower limit is to protect the London Pensions Fund Authority Pension Fund so that at least the calculated cost of benefits is paid.

If required by the letting authority or new employer, it would be possible to carry out further stochastic modelling. This would project 10,000 economic scenarios to consider the contributions that would be payable by the new employer under each scenario, depending on any agreed separation of risk.

The contribution rate actually payable will be the pass through rate agreed between the letting authority and the new employer at the commencement of the contract and we should be notified of this.

Depending on the details of the contract, it may be that the pass through rate or the contract pricing changes throughout the contract based on future assessments of the cost of accrual so please let us know if future calculations will be needed.

In addition, employees pay contributions into the Fund at rates as set out in the Regulations.

Bond level

To mitigate the risk to the administering authority that a new employer will not be able to meet its obligations in the future, the new employer is required to put in place a bond in accordance with Part 3 of Schedule 2 of the Regulations, if required by the letting authority and administering authority.

The level of the bond is calculated to provide protection against costs arising in some or all of the following areas on the cessation of the new employer within the Fund:

- **Strain costs.** These arise as a result of immediate pension benefits becoming payable to relevant staff who could be made redundant or retired due to business efficiency, staff taking flexible retirement, or the employer waiving the early retirement reduction for early payment of a member's benefits.
- **Unpaid contributions or expenses.** These may include unpaid normal employer contributions, unpaid additional employer contributions in respect of early retirements, and expenses associated with the premature termination of the admission agreement.

The following table sets out the projected level of the bond taking into account the risks detailed above.

Potential risks			
Year	Strain costs	Unpaid contributions or expenses	Total
1	£151k	£89k	£240k
2	£146k	£93k	£239k
3	£240k	£97k	£337k
Max in first 3 years			£337k

The expected duration of the contract is 10 years with a possible 5 year extension. As shown in the table, the required bond level is expected to increase over the first three years and so it may be advisable to set the bond at the maximum level shown (i.e. £337k) to avoid having to increase it annually.

The required bond amount is calculated at the outset of the contract and should be reviewed regularly (preferably annually, but at least once every three years if the contract extends that far). This should ensure that the level of the bond remains appropriate as the membership of the new employer evolves. It is the responsibility of the new employer to arrange for provision of the bond: the admission agreement may not come into force without suitable arrangements being in place. Any arrangements should be agreed with all parties involved in the admission agreement.

If, for any reason, it is not appropriate for an admission body to enter into an indemnity or bond, the admission body may provide an alternative guarantee in a form satisfactory to the administering authority. The agreed approach should be set out in a formal written agreement.

More detail on the admission body route is set out in Appendix 2 to this report.

Risks

The Fund is subject to many factors that affect the funding position and could lead to its own funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include employer covenant risk, mortality risk, financial risks (including inflation and investment risk) and regulatory risk. The Fund provides more detail on this in its funding strategy statement and the 31 March 2019 actuarial valuation report. We would encourage the new employer to read these documents to help understand the significance and nature of the risks faced by the employer.

Final comments

We understand the contract is to be let with pass through provisions so that any deficit or surplus arising over the contract period will be the responsibility of the letting authority rather than the new employer. The new employer will be required to pay the pass through rate as specified within the admission agreement (and this may differ from the ongoing cost of accrual).

As set out above, a pass through agreement is one where the contribution rate is fixed at the outset, however, variations of such pass through agreements are possible. For example, depending on the details of the agreement it may be that the contribution rate or the contract pricing changes throughout the contract based on future assessments of the cost of accrual. If such an agreement is reached please let us know so that we can carry out any required calculations.

These results are based on the member data and assumptions set out in Appendix 1; if there are any material changes to the membership from the initial data supplied then our calculations will have to be updated.

As the transfer date is in the future we would recommend a revised report to reflect more up to date assumptions and member data.

We would be pleased to answer any questions arising from this report.



Liam Drysdale FFA
Actuary
Barnett Waddingham LLP

Appendix 1 Data, method and assumptions

Data

We have been provided with membership data by the administering authority. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice. The membership data as at the transfer date is summarised below.

Active members	Number	Actual pensionable salary	Pre 2014 pension	Post 2014 pension	Average age
		£000s	£000s	£000s	
Male	66	1,501	36	145	38.0
Female	53	919	6	59	36.9
Total	119	2,420	42	203	37.5

Of the members included in the table above, 117 are current active members of the LGPS and the remaining 2 are not currently contributing, but are eligible to join. The pension amounts in the table above have been estimated using information provided. In particular, the Post 2014 pension has been estimated using CARE accrued to 31 March 2021 and the salary information provided.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS [website](#) and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Method and assumptions

For the purposes of this report it is appropriate to use the method and assumptions consistent with the actuarial valuation as at 31 March 2019, updated where necessary to reflect market conditions, except for the inflation assumption which has been updated in light of new market information. Following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CIH from 2030, it has been agreed with the administering authority that the PI inflation will be 0.55% p.a. below the 20 year point on the Bank of England implied inflation curve with effect from 31 December 2020. This has been updated the assumption at the 2019 valuation where this gap was assumed to be 1.0% p.a. Further details of this update are available on request.

Using the assumptions set out below we estimate the future cashflows paid to/from the Fund in respect of the employer throughout the future lifetime of existing members. We then discount these projected cashflows using the discount rate to get the present value of the members' benefits. Separate calculations are made in respect of benefits accrued to date (past service) and for benefits that are yet to be accrued (future service). The date of admission is 1 April 2022 and our calculations are based on market conditions as at 15 December 2021.

It is LPFA's policy to vary the discount rate used at employer level for funding valuations depending on the financial strength of the employer and the period that the employer is assumed to back the liabilities. Lee Valley Regional Park Authority are categorized as a category A-Open employer and the assumptions used for this report are based on this classification. For more details of the different categories in the LPFA Fund, please see the 2019 valuation report.



A summary of the financial assumptions used for our calculations and brief details of the mortality assumptions adopted are set out in the table below:

Calculation assumptions	
	% p.a.
Discount rate	5.3%
Rate of pay increases	4.3%
Rate of pension increases (CPI)	3.3%
Commutation	It is assumed that members will exchange 50% of their commutable pension for cash at retirement.
Retirement age	Members retire at a single age, based on the average age at which they can take each tranche of their pension.
Post-retirement mortality	The post retirement mortality assumption adopted for all calculations is based on Club Vita mortality analysis. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.0 and an initial addition parameter of 0.5% p.a.
Dependant post-retirement mortality	The dependant post retirement mortality assumption adopted for all calculations is based on Club Vita mortality analysis. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.0 and an initial addition parameter of 0.5% p.a.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 0.7%.

As noted in the Introduction, an allowance has been made for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap). This is allowed for in the prudence allowance in the ongoing discount rate.

At the time of producing this report the outcome of the effects relating to the McCloud/Sargeant judgement are still to be agreed upon. The final remedy in response to the judgement will only be known once the Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

For the purposes of our calculations we use a smoothed value of the assets rather than the market value. The ongoing financial assumptions shown above are smoothed around the valuation date so that the market conditions used are the average daily observations spanning a six month period around 15 December 2021. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets. The market value of assets attributable to the Employer as at 1 April 2022 is £3,055k.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the relevant actuarial valuation report and the funding strategy statement, both of which are available on request. These also contain details of how the employer covenant has been taken into account in the derivation of the assumptions.

Appendix 2 Admission body with pass through provisions

In this section we consider the contribution requirement and risk assessment should the new employer become an admission body within the Fund under Part 3 of Schedule 2 of the Regulations.

Admission to the Fund will be effected through an admission agreement. This is a legal document which will establish the conditions of admission and needs to be agreed by:

- the administering authority
- the letting authority (if different)
- the new employer

The new employer must comply with the various administrative requirements and make any payments as required under the Regulations. Examples include:

- member and employer contributions
- payments to be made upon exercising employer discretions under the Regulations
- payments required upon termination of the contract

Roles of interested parties

The administering authority is a body listed in Part 1 of Schedule 3 of the Regulations and is required to maintain a pension fund for the purposes of providing LGPS benefits. It is responsible for the local administration of pensions and other benefits payable under the Regulations including the investment of the Fund assets, collecting employer and employee contributions and paying pension benefits. The administering authority will issue the admission agreement to the new employer.

The letting authority is the party that is seeking to let out a contract to a new employer and will, in most cases, be the existing employer of the transferring employees. Sometimes this will be the same as the administering authority; however, all participating employers in the Fund can be a letting authority if they look to contract out some of their services. The letting authority will be the body that could generally provide a form of guarantee. It can also be referred to as the commissioning authority.

We do not refer to the term “Scheme employer” in this report; however, when the admission body joins the LGPS, under the Regulations it will also be known as a Scheme employer. The admission body is the new employer that is taking on the contract.

Funding at the start of the contract

At the start of the contract the pensionable service of the eligible employees will transfer to the new employer. As the contract is to be let with pass through provisions, any deficit in respect of the transferring members is ultimately the responsibility of the letting authority.

Ongoing cost of accrual

The ongoing cost of accrual represents the calculated cost of the benefits accruing using the assumptions set out in Appendix 1, and there is also an allowance made towards the Fund’s overall running costs which is consistent with the approach taken at the last actuarial valuation.

Please note that if the new employer has agreed any special arrangements regarding additional contributions as detailed above, this should be set out in the admission agreement.

Calculations in advance of the transfer date

It should be noted that the advice within this report is based on market conditions as at the date of calculation. If the transfer actually takes place at a different date and the results are not updated, changes in data and market conditions will not be allowed for and may mean that the contractor receives more or less assets than it would do if it was recalculated to reflect the revised transfer date.

Indemnity or bond

In accordance with Part 3 of Schedule 2 of the Regulations, the new employer is required to carry out an assessment of the level of risk to the Fund should their participation within the Fund cease due to, for example, insolvency, winding up or liquidation. This assessment will be to the satisfaction of the administering authority and letting authority, having sought actuarial advice. If the new employer ceases to participate in the Fund for any reason then a cessation valuation will be completed by the Fund actuary.

If, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission body may provide an alternative guarantee in a form satisfactory to the administering authority from:

- (a) a person who funds the admission body in whole or in part
- (b) a person who owns, or controls the exercise of the functions of the admission body, for example a parent company
- (c) the Secretary of State in the case of an admission body which is established by or under any enactment, and where that enactment enables the Secretary of State to make financial provision for that admission body

The agreed approach should be set out in the admission agreement.

The level of the bond set out in the results is therefore the minimum we would recommend as Fund actuary to the administering authority.

The level of the bond is calculated to provide protection against costs arising in some or all of the following areas on the cessation of the new employer within the Fund:

- **Strain costs.** These arise as a result of immediate pension benefits becoming payable to relevant staff who could be made redundant or retired for reasons of business efficiency, staff taking flexible retirement, or the employer waiving the early retirement reduction for early payment of a member's benefits.
- **Unpaid contributions or expenses.** These may include unpaid normal employer contributions, unpaid additional employer contributions in respect of early retirements, and expenses associated with the premature termination of the admission agreement.

The required bond amount is calculated at the outset of the contract and will be reviewed regularly (preferably annually, but at least once every three years). It is the responsibility of the new employer to arrange for provision of the bond: the admission agreement may not come into force without the suitable arrangements being in place. Any arrangements should be agreed with all parties involved in the admission agreement.



The new employer will be required to maintain a bond until such time as all the liabilities identified in the cessation valuation have been paid; the level of bond requirement in the final year of the contract will take this into account.

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Date:	2021
Admission Body: Greenwich Leisure Limited	

Admission Agreement



your pension our world

London Pensions Fund Authority
2nd Floor
169 Union Street
London
SE1 0LL

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This Agreement is made on

2021

PARTIES:

- (1) **THE LONDON PENSIONS FUND AUTHORITY** of 2nd Floor, 169 Union Street, London, SE1 0LL (the "Administering Authority");
- (2) **LEE VALLEY REGIONAL PARK AUTHORITY** of Myddelton House, Enfield EN2 9HG (the "Scheme Employer"); and
- (3) **GREENWICH LEISURE LIMITED** (registered number: 27793R) whose registered office is at Middlegate House, The Royal Arsenal, London, SE18 (the "Admission Body").

BACKGROUND:

- (A) The Administering Authority is an administering authority as defined in the 2013 Regulations. It administers and maintains the Fund, and in that role, it has the delegated function of making determinations under section 25(5) of the Public Service Pensions Act 2013, to allow employees of admission bodies to join the LGPS.
- (B) The Scheme Employer is a Scheme employer as defined in the 2013 Regulations. In that role, it has certain responsibilities under the LGPS Regulations in relation to this Agreement.
- (C) The Admission Body is providing Services in connection with the exercise of certain of the Scheme Employer's functions as a result of the Contract. Therefore, the Admission Body qualifies for admission to the Scheme under paragraph 1(d)(i) of Part 3 of Schedule 2 to the 2013 Regulations.
- (D) The parties have agreed to enter into this Agreement to allow the Admission Body to participate in the Fund so that the Employees can be members of the Scheme. The Agreement sets out the agreed terms and conditions which will apply to that participation.
- (E) This Agreement has been signed by the Administering Authority's Chief Executive Officer without affixing the Administering Authority's common seal in the presence of a witness due to the Government's social distancing measures in light of the Covid-19 pandemic, in accordance with delegated authority from the Administering Authority's Board.

OPERATIVE PROVISIONS:

1. INTERPRETATION

This provision sets out the definitions and rules of interpretation which apply to this agreement.

1.1 The following expressions have the following meanings:

"2013 Regulations"	the Local Government Pension Scheme Regulations 2013
"Actuary"	an actuary appointed by the Administering Authority
"Business Day"	any day other than a Saturday or a Sunday or a public or bank holiday in England
"Contract"	a contract for the provision of the Services dated [xxx] between the Scheme Employer and the Admission Body

Commented [A1]: Parties to confirm

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"employed in connection with the provision of the Services"	unless the Administering Authority agrees otherwise, means that the Employee concerned spends on average in a Scheme year at least 75% of his time working on the Services
"Employee"	an employee of the Admission Body
"Fund"	the London Pensions Fund Authority's Pension Fund.
"LGPS Regulations"	the 2013 Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
"Member"	an Employee who joins the Scheme as an active member and who remains an active member or subsequently becomes a deferred member or a pensioner member. Where relevant, this term also includes a Member's spouse, civil partner, cohabiting partner, eligible child or dependant (actual or prospective)
"Scheme"	the Local Government Pension Scheme, established and governed by the LGPS Regulations
"Services"	the leisure services which are to be provided by the Admission Body under the Contract.
"Start Date"	1 April 2022

- 1.2 If the Administering Authority agrees in writing, "Contract" will also include any extension or renewal of the original contract or any replacement contract which is in force beyond the term of the original contract, provided that it is made between the same parties and relates to substantially the same services. Where the Administering Authority agrees that this **Clause 1.2** applies, the original contract will not be treated as having terminated for the purposes of the LGPS Regulations or this Agreement, and in particular **Clause 7**.
- 1.3 Expressions which are not defined in this Agreement but which are used in the LGPS Regulations have the same meaning as in the LGPS Regulations, unless the context requires otherwise.
- 1.4 Except where otherwise expressly stated, a reference to a numbered "regulation" in this Agreement is to the relevant provision of the 2013 Regulations.
- 1.5 This Agreement includes a heading at the start of each clause, and also various explanatory notes in boxes. These are included for information only, and do not affect the interpretation of the Agreement.
- 1.6 Any reference in this Agreement to a statute or statutory provision includes any subordinate legislation made under it, and is to be construed as a reference to that statute, statutory provision or subordinate legislation as modified, amended, extended, consolidated, re-enacted or replaced and in force from time to time.
- 1.7 Words such as "in particular", "includes" or "including" do not limit the meaning of the general words preceding them.
- 1.8 References to "in writing" or "written" include e-mail (except in **Clause 0**), but do not include any other methods of electronic messaging.

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2. THE LGPS REGULATIONS

This provision sets out the relationship between this agreement and the LGPS regulations.

The LGPS regulations are the main legal provisions governing the LGPS. They set out the rights and obligations of administering authorities, Scheme employers, admission bodies and LGPS members.

This agreement is intended to supplement those regulations, and will not override the regulations if there is a direct conflict between the two. However, because this agreement is designed to reflect the LGPS regulations as they stand at the date of this agreement, this provision also sets out the parties' commitment to co-operate in making appropriate changes if the LGPS regulations change materially in future.

2.1 LGPS Regulations to take priority

In the event of a conflict between the provisions of this Agreement and the LGPS Regulations, the rights and obligations of each party to this Agreement will be determined by the LGPS Regulations.

2.2 Future changes to the LGPS Regulations

If the LGPS Regulations as in force at the date of this Agreement are materially amended or modified at any later date, the parties agree that they will negotiate in good faith with a view to agreeing appropriate amendments to this Agreement to reflect the changes made to the LGPS Regulations.

3. START DATE

This provision confirms the date on which this agreement takes effect. This date may be earlier than the date on which it is executed by the parties.

This Agreement has effect on and from the Start Date.

4. MEMBERSHIP OF EMPLOYEES

This provision sets out the terms on which employees of the Admission Body will be admitted to membership of the Scheme.

Under the LGPS regulations, employees of an admission body can be admitted if the administering authority "determines" that the LGPS relates to them and if they are "designated" by the admission body as eligible. The LGPS regulations contain other requirements relating to eligibility which must also be met in order for a particular employee to be an active member of the LGPS.

So that member benefits are correctly recorded and calculated, the LGPS regulations and this agreement together require the Admission Body to provide the Administering Authority with information about changes in employment or membership status, and to ask employees who become active members about any past periods of membership of the LGPS.

4.1 Admission of the Admission Body to the Fund

The Administering Authority admits the Admission Body to the Fund on and from the Start Date and (in exercise of the function delegated to it under section 25(5) of the Public Service Pensions Act 2013) determines that the Scheme relates to those Employees who are designated by the Admission Body in ~~Clause~~ 4.2.

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4.2 Designation of eligible Employees

The Admission Body designates the following categories of Employee as eligible for active membership of the Scheme, subject to the conditions (if any), and on and from the dates, shown below:

Category:	Nature of eligibility:	Effective date of designation:
An Employee listed in Part 1 of the Schedule	Eligible to remain in active membership	Start Date
An Employee listed in Part 2 of the Schedule	Eligible to join Scheme if applies in writing	First day of payment period following receipt by Admission Body of written application

4.3 Restriction on eligibility

An Employee may only be an active member of the Scheme under this Agreement for as long as he is employed in connection with the provision of the Services.

4.4 Changes to eligibility, benefits or membership

The Admission Body must promptly inform the Administering Authority in writing where:

- (a) an Employee who is an active member ceases to be employed in connection with the provision of the Services;
- (b) an Employee joins or re-joins the Scheme;
- (c) there is a material change to a Member's terms and conditions of employment which affects the Member's entitlement to benefits under the Scheme; or
- (d) an Employee who is an active member ceases to be employed by the Admission Body, including where the employment is terminated on grounds of redundancy, business efficiency or ill-health.

5. ADMISSION BODY UNDERTAKINGS

This provision sets out certain key undertakings which the Admission Body is giving to the Administering Authority under this agreement.

In particular, the Admission Body is required by this agreement to comply with all applicable provisions of the LGPS regulations. The other, more specific, undertakings in this agreement all supplement the obligations imposed by the LGPS regulations.

5.1 Compliance

The Admission Body undertakes:

- (a) to comply with all applicable requirements of the LGPS Regulations;
- (b) to adopt the practices and procedures relating to the operation of the Scheme set out in any employer's guide produced by the Administering Authority and provided to the Admission Body;
- (c) to comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the Administering Authority and provided to the Admission Body; and

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- (d) not to do anything (or omit to do anything) where that act or omission may prejudice the status of the Scheme as a registered pension scheme.

5.2 Provision of information

The Admission Body undertakes:

- (a) to inform the Administering Authority promptly in writing of all first instance decisions which the Admission Body makes in respect of Members under regulation 72;
- (b) where it exercises any discretion under the LGPS Regulations, to inform the Administering Authority promptly in writing of that fact, including details of the way in which the relevant discretion is exercised; and
- (c) promptly to provide (or procure the provision of) all other information that the Administering Authority reasonably requests in connection with any aspect of the administration and management of the Fund.

5.3 Discretions policy

Within three months of the date of this Agreement, the Admission Body must provide the Administering Authority with a copy of the statement of policy which it is required to prepare under regulation 60(1) (relating to the exercise of its various discretionary functions under the LGPS Regulations).

5.4 Matters affecting participation

The Admission Body must give notice to the Administering Authority and the Scheme Employer:

- (a) promptly, of any matter which may affect its participation in the Scheme; and
- (b) immediately, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution. Where this Clause 5.4(b) applies, the Admission Body must not make any representations to any person regarding starting or continuing membership of the Scheme without the prior written consent of the Administering Authority.

6. CONTRIBUTIONS AND PAYMENTS

The LGPS regulations contain details of the contributions and other payments which employers are (or may be) required to make to an LGPS fund, and gives administering authorities powers to adjust contribution rates or to require additional payments in certain circumstances.

This provision supplements the provisions of the LGPS regulations in relation to those contributions and payments, and specifies certain additional amounts which the Admission Body is required to pay as part of the terms and conditions relating to its admission to the LGPS under this agreement.

6.1 Undertaking to make payments

The Admission Body undertakes to pay to the Administering Authority all contributions and payments due under the LGPS Regulations and this Agreement.

6.2 Default period for payment

This Clause 6.2 applies only where this Agreement, the LGPS Regulations or any other relevant legislation does not expressly specify an alternative period for payment of any

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amount which the Admission Body is required to pay to the Fund. Where this **Clause 6.2** applies, the amount must be paid in full within the period of 20 Business Days starting on the date on which the Administering Authority serves notice on the Admission Body of the amount due, unless the Administering Authority and the Admission Body agree that it should be paid over a different period or on other terms.

6.3 Specific payments

The Admission Body must pay to the Fund the following amounts on the payment terms indicated (this list is not exhaustive):

Nature of payment:	Payment terms:
Primary and secondary rate employer contributions as set out in the rates and adjustment certificate prepared by the Actuary (as revised from time to time under the LGPS Regulations or this Agreement)	Monthly in arrears as set out in the rates and adjustments certificate (unless alternative terms are expressly agreed)
Additional employer contributions payable under regulation 16	As for ordinary employer contributions (unless alternative terms are expressly agreed)
Contributions deducted from Members' pay under regulations 9-14 and 16	Monthly in arrears no later than the date specified by the Administering Authority, and in any event no later than required by section 49(8) of the Pensions Act 1995
Any contribution required by the Administering Authority towards the Fund's administration costs relating to the Admission Body, including any costs: <ul style="list-style-type: none"> • due under regulation 70 (additional costs arising from employer's level of performance) • for reports or advice requested by the Admission Body from the Actuary • for reports or advice required in connection with the Admission Body's application to join the Fund • for obtaining a revised rates and adjustments certificate under regulation 64(4) or (7) • of an actuarial valuation under regulation 64(2)(a) or Clause 7.2 on exit from the Fund • incurred as a result of the termination of this Agreement 	Default terms (see Clause 6.2)

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Nature of payment:	Payment terms:
Any extra charge required by the Administering Authority to cover the actuarial strain on the Fund (as notified by the Actuary in writing) resulting from the immediate payment of benefits under any of: <ul style="list-style-type: none"> • <i>regulation 30(5)</i> (early retirement) or <i>regulation 30(6)</i> (flexible retirement), including in either case the cost of any waiver of actuarial reduction under <i>regulation 30(8)</i> • <i>regulation 30(7)</i> (early leavers on grounds of redundancy / business efficiency) • <i>regulation 35</i> (ill-health early retirement - active member) • <i>regulation 38</i> (ill-health early retirement - deferred or deferred pensioner member) 	Default terms (see Clause 6.2)
Any sum required under regulation 68(3) where the Admission Body resolves to award a Member additional pension under regulation 31 and the cost of the award is not met through increased employer contributions	Default terms (see Clause 6.2)
An amount equal to any extra charge on the Fund resulting from an award of additional pension under regulation 31 which is not met in full through increased employer contributions and/or a payment under regulation 68(3)	Default terms (see Clause 6.2)
Any exit payment due under regulation 64(1) or Clause 7.2(b)	Default terms (see Clause 6.2)
Any interest charged by the Administering Authority on late payment under regulation 71 or Clause 6.6	Default terms (see Clause 6.2)

6.4 Payments in relation to backdated admission

If the Start Date is earlier than the date of this Agreement:

- (a) any obligation on the Admission Body to make payments under the LGPS Regulations or this Agreement will apply also in respect of the period on and from the Start Date up to the date of this Agreement; and
- (b) If contributions deducted from Members' pay during that period have not been paid across to the Administering Authority before the date of this Agreement, those amounts are to be treated for the purposes of section 49(8) of the Pensions Act 1995 as if they were first deducted on the date of this Agreement.

6.5 Information about pay and contributions

When paying Member contributions to the Fund, the Admission Body must provide an accompanying statement containing the information specified under regulation 69(3), and any other relevant information requested by the Administering Authority, in relation to each Member who was an active member of the Scheme during any part of the period covered by the statement. The statement must be given in the format, and at the intervals, which the Administering Authority specifies.

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6.6 Interest on late payment

If any sum payable by the Admission Body under the LGPS Regulations or this Agreement remains unpaid after the date on which it was due for payment, and that sum is not an amount on which interest is chargeable under regulation 71, the Administering Authority may instead require the Admission Body to pay interest on the unpaid sum under this Clause 6.6. The rate of interest will be as specified in regulation 71(4).

6.7 Adjustment of contribution rate

Under regulations 64(2), (4) and (7), the Administering Authority is entitled or required in certain circumstances to obtain a revised rates and adjustments certificate in relation to the Admission Body. Where the Administering Authority exercises its powers under these regulations, the Admission Body must co-operate with the Administering Authority and the Actuary to enable the Actuary to provide the revised certificate.

6.8 Right of set-off

If any sum payable by the Admission Body to the Fund under the LGPS Regulations or this Agreement is not paid by the date on which it becomes due, the Administering Authority may require the Scheme Employer to set off against any payments due to the Admission Body an amount equal to the unpaid amount (including any interest payable) and to pay the sum to the Fund by a date specified by the Administering Authority. This provision will apply regardless of any terms to the contrary contained in the Contract.

6.9 Funding and actuarial matters

- (a) Any payment due from the Admission Body under the LGPS Regulations or this Agreement is to be calculated on the assumption that, as at the Start Date, any liabilities relating to the Scheme membership prior to the Start Date of the Employees listed in the Schedule are 100% funded.
- (b) "100% funded" means that the Admission Body is to be notionally allocated at the Start Date an amount of assets within the Fund equal to the value of the liabilities as at the Start Date, as determined by the Actuary using actuarial assumptions consistent with the most recent actuarial valuation of the Fund before the Start Date (updated to the Start Date as necessary).
- (c) Where any additional funding (as certified by the Actuary) is necessary to achieve a 100% funded position as at the Start Date, this is to be deducted from the Scheme Employer's notional allocation of assets within the Fund.

7. TERMINATION

This provision sets out the ways in which this agreement may come to an end, and the consequences of that termination.

In particular, the termination of this agreement will usually give rise to an actuarial valuation (either under the LGPS regulations or this agreement). If the valuation reveals a deficit relating to the Admission Body's current and former employees, the Admission Body may be required to make an exit payment to meet the shortfall.

7.1 Events leading to termination

This Agreement will terminate in the circumstances, and on the date, shown below:

Event triggering termination:	When termination takes effect:
Contract terminates or expires	On the date of termination or expiry of the Contract

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Event triggering termination:	When termination takes effect:
Admission Body no longer qualifies as an "admission body" under the LGPS Regulations	On the date on which the Admission Body ceases to qualify
Admission Body gives notice to the Administering Authority	On expiry of any period set out in the notice, or if longer (or if no period is specified), three months from the date notice is served
Breach by the Admission Body of any obligation under the LGPS Regulations or this Agreement (including failing to pay any sums due to the Fund). If the breach is capable of remedy, the Administering Authority must first give the Admission Body the chance to remedy the breach within a reasonable period (specified by the Administering Authority), before giving notice of termination.	On the date on which notice of termination on this ground is served by the Administering Authority on the Admission Body
Insolvency, winding-up or liquidation of the Admission Body	On the date on which notice of termination on this ground is served by the Administering Authority on the Admission Body
Admission Body no longer employs an active member contributing to the Fund	On the date on which notice of termination on this ground is served by the Administering Authority on the Admission Body
Administering Authority gives notice to the other parties for any other reason	On expiry of any period set out in the notice, or if longer (or if no period is specified), three months from the date notice is served

7.2 Termination valuation

If, for any reason, the Administering Authority is unable to obtain an actuarial valuation or a revised rates and adjustment certificates under regulation 64(2), the following provisions will apply:

- (a) The Administering Authority will be entitled to obtain from the Actuary an actuarial valuation of the assets and liabilities of the Fund in respect of the Members as at the date this Agreement terminates, calculated on the basis recommended by the Actuary. The Admission Body must co-operate with the Administering Authority and the Actuary to enable the Actuary to carry out the valuation.
- (b) If a valuation obtained under **Clause 7.2(a)** reveals a deficit in the Fund, the Administering Authority may require the Admission Body to pay to the Fund an exit payment not exceeding the deficit amount (as certified by the Actuary).
- (c) If the Admission Body does not pay all or part of an exit payment required under **Clause 7.2(b)** and the unpaid amount is not then paid in full by any person providing a bond, indemnity or guarantee under **Clause 8**, the Administering Authority may recharge any remaining unpaid balance to the Scheme Employer.

7.3 Other outstanding payments on termination

Where any amount payable under this Agreement or the LGPS Regulations remains outstanding at the date of termination of this Agreement, the Admission Body must pay it

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in full within the period of 20 Business Days starting on that date, unless the Administering Authority and the Admission Body agree that it should be paid over a different period or on other terms. This includes any amount where the Administering Authority has previously agreed to payment of that amount in instalments under **Clause 6.2**.

Subject to the paragraph above, upon expiry or termination of the Contract, all assets and liabilities in relation to the Fund will be transferred back to the Scheme Employer.

7.4 Time period for payment of exit credit

If an exit credit is payable to the Admission Body under the 2013 Regulations, the Administering Authority will pay that amount within 12 months of the date on which this Agreement terminates, or within any longer period that the Administering Authority and the Admission Body agree.

7.5 Rights on termination

The termination of this Agreement does not affect the rights, duties and liabilities of any party accrued prior to termination, and the provisions of this Agreement which expressly or impliedly have effect after termination will continue to be enforceable.

8. RISK ASSESSMENT

This provision sets out terms relating to risk assessment and mitigation.

The LGPS regulations recognise that allowing admission bodies to participate in the LGPS can create risk, particularly if an admission body becomes insolvent when the fund is in deficit. To mitigate this risk, an admission agreement must allow the administering authority to require the admission body to provide protection for the LGPS fund, in the form of a bond, indemnity and/or guarantee from a suitable provider (such as an insurer).

Further, because levels of risk fluctuate over time, the LGPS regulations also require an admission agreement to contain provisions relating to ongoing monitoring of risk.

8.1 Meaning and assessment of "Risk Exposure"

In this **Clause 8**, the term "Risk Exposure" means the risk exposure arising on the premature termination of the provision of the Services by reason of the Admission Body's insolvency, winding-up or liquidation. Any assessment of "Risk Exposure" must be carried out by the Admission Body, taking account of actuarial advice, and to the satisfaction of the Administering Authority and the Scheme Employer.

8.2 Requirements in relation to bond, indemnity or guarantee

Unless otherwise agreed by the Administering Authority in writing:

- (a) any bond or indemnity provided under this **Clause 8** must be from a person or firm meeting the requirements of paragraph 7 of Part 3 of Schedule 2 to the 2013 Regulations;
- (b) any guarantee provided under this **Clause 8** must be from a person listed in paragraph 8 of Part 3 of Schedule 2 to the 2013 Regulations, and may only be provided where the parties have agreed that it is not desirable for the Admission Body to provide a bond or indemnity instead;
- (c) any bond, indemnity or guarantee provided under this **Clause 8** must be in a form approved by the Administering Authority and for the full amount of the level of Risk Exposure as most recently assessed by the Admission Body.

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8.3 Initial level of Risk Exposure

The Admission Body has assessed (taking account of actuarial advice) the level of risk exposure arising by reason of the Insolvency, winding up or liquidation of the Admission Body. This assessment has been carried out to the satisfaction of the Administering Authority.

8.4 Provision of bond, indemnity or guarantee

In view of the guarantee from the Scheme Employer pursuant to **Clause 10**, the parties have agreed that the Initial level of Risk Exposure does not require a bond, indemnity or guarantee to be put in place.

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8.5 Ongoing assessment of risk

The Admission Body must keep the level of Risk Exposure under assessment at regular intervals as required by the Administering Authority and the Scheme Employer.

8.6 New or extended bond, indemnity or guarantee

- (a) This **Clause 8.6** applies where any bond, indemnity or guarantee already provided is for a period shorter than the full term of this Agreement, or where the Administering Authority so requires following an assessment of Risk Exposure carried out under **Clause 8.5**.
- (b) Where this **Clause 8.6** applies, the Admission Body must take one of the following actions within the time limit indicated below:

Required action	Time limit for completion
Arrange for an existing bond, indemnity or guarantee to be extended in duration and/or amount as appropriate	At least one month before the date of expiry of the existing bond, indemnity or guarantee, or by any earlier date specified by the Administering Authority
Arrange for provision of a new bond, indemnity or guarantee	If being provided as a replacement for an existing time-limited bond, indemnity or guarantee, at least one month before the date of expiry of that bond, indemnity or guarantee, or by any earlier date specified by the Administering Authority In any other case, by the date specified by the Administering Authority

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9. INDEMNITY

This provision provides for the Admission Body to indemnify the Administering Authority against breaches of the Admission Body's legal obligations.

Because the Administering Authority is under legal duties in relation to the administration of the Fund, it cannot simply overlook breaches by the Admission Body (such as late payment or non-payment of contributions). As a minimum, the Administering Authority is likely to need to take advice on what actions it can and should take in relation to any breach. This will result in the Administering Authority incurring costs. The indemnity aims to ensure that those costs are met by the Admission Body, since they flow from the Admission Body's breach of its obligations.

If the Admission Body fails to make payment under the indemnity, the Scheme Employer, as the entity most closely linked with the Admission Body, is required to make good any shortfall.

9.1 Indemnity from Admission Body

The Admission Body undertakes to indemnify and keep indemnified the Administering Authority against any costs and liabilities which the Administering Authority or the Fund may incur (whether directly or as a result of a loss or cost to the Members) arising out of or in connection with any breach by the Admission Body of this Agreement, the LGPS Regulations or any other legal or regulatory requirements applicable to the Scheme.

9.2 Time limit for payment

Any demand under **Clause 9.1** must be paid by the Admission Body to the Administering Authority (for credit to the Fund, where applicable) within 10 Business Days of the date on which notice of the demand is served on the Admission Body.

9.3 Indemnity from Scheme Employer

If the Admission Body fails to pay any demand under **Clause 9.1** (either in full or at all), the Scheme Employer must indemnify and keep indemnified the Administering Authority against any costs and liabilities which remain unpaid. In that event, the provisions of **Clause 9.2** (with any changes which may be necessary) will apply also to any demand made on the Scheme Employer under this **Clause 9.3**.

10. GUARANTEE FROM SCHEME EMPLOYER

10.1 Failure to pay Scheme liabilities

Where the Admission Body has failed to pay any sum due under this Agreement or the Regulations (in whole or in part and including for the avoidance of doubt any exit payment due when this Agreement ceases to have effect) to the Administering Authority within 20 Business Days of receipt by the Admission Body of a written demand from the Administering Authority, the Scheme Employer must pay to the Administering Authority such sum or sums as the Administering Authority claims in respect of the unpaid liability.

10.2 Service of Payment Notice and payment

Any claim under **Clause 10.1** (Failure to pay Scheme liabilities) must be made by written notice specifying the amount due (a "Payment Notice"), which must be served by the Administering Authority upon the Scheme Employer in accordance with **Clause 11** (Notices). The Payment Notice is to be accepted by the Scheme Employer as conclusive evidence for all purposes that the amount claimed is due to the Administering Authority. The Scheme Employer must pay the sum so demanded within 5 Business Days of receipt of the Payment Notice.

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10.3 Sums paid by the Scheme Employer

- 10.3.1 All sums paid by the Scheme Employer in accordance with **Clause 10.1** (Failure to pay Scheme liabilities) must be held and applied by the Administering Authority for the purpose of paying and discharging the Admission Body's liability to pay the relevant sums due under this Agreement or the LGPS Regulations.
- 10.3.2 Any payment to be made by the Scheme Employer must be made in sterling and must be free, clear of and without any deduction for taxes, levies, duties, charges, fees or any deductions or withholdings for or on account of any set-off or counterclaim.
- 10.3.3 Any payment to be made by the Scheme Employer must be made from funds held by the Scheme Employer in its capacity as such, and not from any funds held in its capacity as the Administering Authority.

10.4 Receipt of payment

Following any payment by the Scheme Employer in accordance with **Clause 10.1** (Failure to pay Scheme liabilities), the Administering Authority must within 6 months of receipt of payment provide the Scheme Employer with a written account showing how the payment has been applied to the Fund. If any payment exceeds the amount required to discharge the liabilities of the Admission Body to the Fund, the Administering Authority must refund any overpayment to the Scheme Employer.

10.5 Further Payment Notice

The service of a Payment Notice by the Administering Authority does not preclude the service of any further Payment Notice.

10.6 Obligations and liabilities

The Scheme Employer's obligations and liabilities under this **Clause 10** (Guarantee from scheme employer) will not be reduced, discharged, impaired or affected by the giving of time or any other indulgence, forgiveness or forbearance by the Administering Authority in respect of the Admission Body.

10.7 Change in status

Unless expressly varied under **Clause 15** (Amendment), this **Clause 10** (Guarantee from Scheme Employer) will remain in effect in accordance with its terms notwithstanding any variation made in any of the other terms of this Agreement or the LGPS Regulations and notwithstanding the insolvency, winding-up or liquidation of the Admission Body (compulsory or otherwise) or it otherwise ceasing to exist or function. This **Clause 10** (Guarantee from Scheme Employer) and the obligations under it will not be affected by any disclaimer of the Admission Body's contracts or liabilities by a liquidator.

10.8 Warranty of authority

The Scheme Employer warrants and represents to the Administering Authority that it has all necessary authority, power and capacity to enter into and perform its obligations under this **Clause 10** (Guarantee from Scheme Employer), that all necessary actions have been taken to enter into those obligations properly and lawfully, and that those obligations are binding on the Scheme Employer in accordance with their respective terms.

10.9 Expiry date

- 10.9.1 The obligations and liabilities of the Scheme Employer under this **Clause 10** (Guarantee from scheme employer) will cease and determine absolutely on the full discharge of all liabilities of the Admission Body (arising under this

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Agreement and the LGPS Regulations) by the Admission Body or the Scheme Employer.

10.9.2 For the avoidance of doubt, this **Clause 10** (Guarantee from Scheme Employer) will continue to have effect after the termination of this Agreement unless and until all liabilities of the Admission Body under the LGPS Regulations or this Agreement have been discharged in full either by the Admission Body or by the Scheme Employer pursuant to **Clause 10.9.1** (Expiry date).

11. NOTICES

*This provision sets out how any notices envisaged in the other provisions of this agreement are to be served. Provisions requiring formal written notice include **Clause 5.4** (on matters affecting the Admission Body's participation in the LGPS), **Clause 6.2** (on payments) and **Clause 7** (on termination).*

11.1 Form of notice and address for service

Any notice under this Agreement must be in writing and must be served on the party to which it is to be issued at that party's registered office or, where there is no registered office, its headquarters address.

11.2 Methods, date and time of service

Any notice under this Agreement must be served by one of the methods, and will be deemed to have been served at the time and on the date, set out below:

Method of service:	Time and date service deemed to be made:
Notice is sent by first-class post	9.00 am on second Business Day after date of posting
Notice is left at the service address, or is delivered to that address by any other means	If served between 9.00 am and 5.00 pm on a Business Day, at the time the notice is delivered to or left at the service address If served on a day which is not a Business Day, or after 5.00 pm on a Business Day, at 9.00 am on the next Business Day If served before 9.00 am on a Business Day, at 9.00 am on that day

12. WAIVER

This provision makes it clear that a failure to enforce rights under this agreement will not amount to a waiver of those rights.

If a party fails to enforce any provision of this Agreement at any time, that failure will not:

- (a) be construed or deemed to be a waiver of that party's rights;
- (b) affect the validity of any part of this Agreement; or

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- (c) prejudice that party's rights to take subsequent action to enforce any provision of this Agreement.

13. SEVERANCE

This provision sets out what happens if any part of this agreement is found to be invalid. It deals both with the effect on this agreement and also any consequent impact on employees' membership of the LGPS

13.1 Effect of Invalidity on the Agreement

If any provision of this Agreement is found by any court or administrative body of competent jurisdiction to be invalid or unenforceable:

- (a) that invalidity or unenforceability will not affect the other provisions of this Agreement, which will remain in full force and effect; and
- (b) If the provision in question would be valid and enforceable if some part of it were deleted, the provision will apply with any changes which are necessary to make it valid and enforceable.

13.2 Effect of Invalidity on periods of Scheme membership

If any period of Scheme membership following purported admission to the Scheme under this Agreement is found by any court or administrative body of competent jurisdiction to be invalid, that invalidity will not affect any other periods of Scheme membership under this Agreement.

14. ENTIRE AGREEMENT

This provision confirms that this agreement sets out the only legal terms relating to the admission of the Admission Body. Anything contained in communications between the parties during the negotiation process leading up to the execution of this agreement but which is not reflected in its terms is not intended to be legally binding or enforceable.

This Agreement constitutes the entire agreement between the parties in connection with its subject matter and supersedes all prior representations, communications, negotiations and understandings concerning the subject matter of this Agreement.

15. AMENDMENT

This provision explains how the terms of this agreement may be changed.

This Agreement may only be amended by a deed executed by all the parties.

16. EXECUTION IN COUNTERPARTS

This provision explains how this agreement can be executed in counterparts (meaning that there may not be a single document signed by all the parties).

This Agreement may be executed in any number of counterparts, each of which will constitute an original, but which will together constitute one agreement. This Agreement will not be effective until each party has executed at least one counterpart. The term "counterpart" includes a facsimile or scanned copy of this Agreement.

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17. GOVERNING LAW AND JURISDICTION

This provision confirms the legal framework which governs this agreement and any associated legal obligations.

This Agreement and any non-contractual obligation arising out of or in connection with it will be governed by and interpreted in accordance with the laws of England and Wales, and the courts of England and Wales have exclusive jurisdiction to determine any dispute arising out of or in connection with this Agreement (including in relation to any non-contractual obligations).

18. DISPUTE RESOLUTION

This provision sets out the approach to be taken to the resolution of disputes relating to this agreement. In the interests of saving time and costs, before a dispute is taken to court, the parties are required to make a genuine attempt to resolve it informally, through discussions between senior representatives of each party and (if the parties agree) through mediation.

18.1 Restriction on litigation

Except as set out in **Clause 18.5**, no party may commence proceedings in relation to a dispute that arises out of or in connection with this Agreement (including in relation to any non-contractual obligations) unless that party has:

- (a) served notice (a "Referral Notice") on each other party notifying it of the relevant dispute; or
- (b) already received a Referral Notice from another party in relation to the same dispute.

18.2 Internal resolution process – Stage 1

Following service of a Referral Notice, each party must respectively procure that the relevant dispute is referred for resolution to its appropriate representative as set out in the following table:

Party	Stage 1 representative
Admission Body	[any person of [insert title] level (or above)][any director]
Administering Authority	any director
Scheme Employer	[any person of [insert title] level (or above)][any director]

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Those representatives must meet at the earliest convenient time and in any event within 10 Business Days of the date of service of the Referral Notice, and must negotiate in good faith and attempt to resolve the dispute.

18.3 Internal resolution process – Stage 2

If a dispute has not been resolved within 15 Business Days of the date of service of the relevant Referral Notice, each party must respectively procure that the dispute is referred for resolution to its appropriate representative as set out in the following table:

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Party	Stage 2 representative
Admission Body	[any person of [insert title] level (or above)][the Chairman, Chief Executive or Finance Director]
Administering Authority	The Chief Executive
Scheme Employer	[any person of [insert title] level (or above)][the Chairman, Chief Executive or Finance Director]

Commented [A4]: Parties to confirm

Those representatives must meet at the earliest convenient time and in any event within 25 Business Days of the date of service of the Referral Notice, and must negotiate in good faith and attempt to resolve the dispute.

18.4 External resolution processes

- (a) Regardless of whether **Clauses 18.2** and **18.3** have been complied with, if a dispute is not resolved within 30 Business Days of service of the relevant Referral Notice any party may commence proceedings in accordance with **Clause 17** or, if all parties agree in writing to do so, the parties must attempt to settle the dispute by mediation in accordance with the CEDR Model Mediation Procedure. Any party may withdraw from a mediation at any time.
- (b) The provisions of this **Clause 18.4** do not affect any right that any party may have to damages in respect of a breach by another party of **Clauses 18.2** and **18.3**.

18.5 Preservation of rights

Nothing in this **Clause 18** will prevent or delay any party from:

- (a) seeking orders for specific performance, interim or final injunctive relief;
- (b) exercising any rights it has to terminate this Agreement; or
- (c) commencing proceedings where this is necessary to avoid loss of a claim owing to the rules on limitation of actions.

19. THIRD PARTY RIGHTS

This provision confirms that third parties (such as employees of the Admission Body) are not intended to be able to enforce any of this agreement's provisions, even if those provisions are for their benefit.

The parties do not intend that any term of this Agreement will be enforceable under the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to it.

20. PUBLIC INSPECTION

The LGPS regulations require admission agreements such as this one to be open to public view. This provision explains the arrangements for public inspection.

Subject to the Schedule being removed or redacted to protect personal data, as required by data protection law, this Agreement must be made available for public inspection by the Scheme Employer at its offices.

EXECUTED as a deed and delivered on the date stated at the beginning of this Agreement.

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EXECUTED as a deed
on behalf of
THE LONDON PENSIONS FUND AUTHORITY
acting by its Chief Executive Officer:

Chief Executive Officer

In the presence of:
Witness name:
Witness signature:

EXECUTED as a deed by
affixing **THE COMMON SEAL** of
LEE VALLEY REGIONAL PARK AUTHORITY
in the presence of:

Authorised Officer

Commented [A5]: Lee Valley to confirm

EXECUTED as a deed by **GREENWICH LEISURE LIMITED** acting by two directors or by a director and its company secretary

Director signature:

Name:

Director / secretary signature:

Name:

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LEE VALLEY REGIONAL PARK AUTHORITY

ADDITIONAL AUTHORITY MEETING

10 MARCH 2022 AT 13:30

Agenda Item No:

6

Report No:

A/4315/22

**NATIONAL SCHEME FOR AUDITOR APPOINTMENTS
2023/24 TO 2027/28**

Presented by the Head of Finance

SUMMARY

It is a requirement for the external auditor for the audit of accounts 2023/24 to be appointed before the end of December 2022. Public authorities have a choice about how to make the appointment when the existing scheme for public appointments ends; either they can arrange the procurement for their own appointment or they can opt into the national scheme run by Public Sector Audit Appointments.

RECOMMENDATION

Members Approve: (1) to opt into the Public Sector Audit Appointments scheme.

BACKGROUND

- 1 Public Sector Audit Appointments (PSAA) are a not-for-profit company established by the Local Government Association (LGA) in August 2014. They administer the current audit contracts that had previously been let by the Audit Commission before it closed. They have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body.
- 2 PSAA have been specified by the Secretary of State as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

- 3 The Authority opted-in to the PSAA scheme for the period 2018/19 to 2022/23 in January 2017.

The PSAA are now procuring contracts and will appoint an auditor for all opted

in bodies for each of the five financial years beginning from 1 April 2023.

- 4 The Authority has the option to opt-in to this scheme, or as an alternative, the Authority could choose to appoint its own external auditor through a procurement exercise.

BENEFITS OF OPTING IN

- 5 PSAA intend to run the scheme in a way that will save time and resources for local government bodies through a collective procurement, carried out on behalf of all opted-in authorities, enabling them to secure the best prices without compromising on audit quality. Their current experience means they have a unique experience and understanding of auditor procurement and the local public audit market.

Opting in will avoid the need for the Authority to:

- establish an audit panel with independent members;
- manage our own auditor procurement and cover its costs;
- monitor the independence of the appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with the auditor.

- 6 The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.
- 7 PSAA believe that a sector led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members, which include:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- on-going management of any independence issues which may arise;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements; and
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities.

Appendix A to this report sets out the invitation to opt-in to the National Scheme, along with the PSAA background on accepting the invitation.

PROCUREMENT STRATEGY

- 8 The PSAA set out their Procurement Strategy 2022 for award of the audit contracts on 22 September 2021, and on 31 January 2022 they published a slightly revised strategy. The Procurement Prospectus is included at Appendix B to this report.

The main points are detailed below.

The PSAA procurement strategy will cover the audits of the accounts of all eligible bodies that opt into the appointing person scheme. Eligible bodies include local authorities, combined authorities, police and crime commissioners including PFCCs, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

There are currently 476 eligible bodies that will receive invitations to opt into the appointing person arrangements which need to be confirmed by 11 March 2022.

In order to secure the best prices PSAA intend to let audit contracts:

- for 5 years;
- there is a single England-wide contract area, containing between 10 "standard" lots. The size of each lot will be graduated to enable bidders to match their capacity and risk appetite with their preferred lot size;
- PSAA intend to, if possible, enter into contracts with a larger number of suppliers than the current five. This will give PSAA greater flexibility to manage auditor independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, PSAA will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

AUDITOR APPOINTMENTS AND INDEPENDENCE

- 9 Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA will ensure that every auditor appointment passes this test. They will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

PSAA will consult the Authority on the appointment of its auditor from September 2017. Auditor appointments for the audit of the accounts of the 2023/24 financial year must be made by 31 December 2022.

FEE SCALES

- 10 PSAA advise that audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

They cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements.

However, they propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts as a number of individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit. PSAAs research has indicated that a minimum fee of £31,000 pa should apply to an opted-in body.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2022. Contracts are likely to be awarded at the end of August 2022 and at this point the overall cost and therefore the level of fees required will be clear. PSAA expect to consult on the proposed scale of fees in autumn 2022 and to publish the fees applicable for 2023/24 in March 2023.

TIMETABLE

- 11 The closing date for opting into the National Scheme with PSAA is 11 March 2022. A full list of authorities who opt in will be published on PSAA's website.

• Invitation to opt in issued	22 September 2021
• Closing date for notices to opt in	11 March 2022
• Contract notice published	February 2022
• Award audit contracts	August 2022
• Consult on/make auditor appointments	By end of December 2022
• Consult on and publish scale fees	By end of March 2023

ALTERNATIVE TO OPTING-IN

- 12 Should the Authority choose not to opt in, there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Authority itself, and the members of the panel must be wholly or a majority of independent members as defined by the 2014 Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members would not have a majority input to assessing bids.
- 13 Alternatively, the Act enables the Authority to join with other public bodies to establish a joint auditor panel. This will also need to be constituted of wholly or a majority of independent appointees. This will prove difficult to action however, as the majority of local authorities have already opted in to the PSAA scheme.

- 14 Should the Authority choose to set up its own panel, it would be more resource-intensive processes to implement, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The Authority is unable to influence the scope of the audit and the regulatory regime inhibits the Council's ability to affect quality.

ENVIRONMENTAL IMPLICATIONS

- 15 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 16 There are no financial implications arising directly from the recommendations in this report. Currently the Authority pays an annual scale fee of £14,337, a sum that has remained the same since 2018/19.

HUMAN RESOURCE IMPLICATIONS

- 17 The use of a third party to source and manage the external audit contract will mean the Authority is not committing internal resources to carry out this task.

LEGAL IMPLICATIONS

- 18 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 19 There are no risk management implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

- 20 There are no equality implications arising directly from the recommendations in this report.

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APPENDICES ATTACHED

- Appendix A Invitation to opt-in to the national scheme
Appendix B Procurement Prospectus

ABBREVIATIONS

- LGA Local Government Association
PSAA Public Sector Audit Appointments
FRC Financial Reporting Council
RSB Recognised Supervisory Body

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22 September 2021

To: Mr Dawson, Chief Executive
Lee Valley Regional Park Authority

Copied to: Mr Kellard, S151 Officer
Ms Button, Chair of Audit Committee or equivalent

Dear Mr Dawson,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our Invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, Independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

Opting In

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

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PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021

www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by [your feedback to the June 2021 consultation](#) on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

In relation to appointing auditors, eligible bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) no later than midnight on Friday 11 March 2022.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

"The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market."

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

MHCLG's¹ Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- **avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;**
- **providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and**
- **concerted efforts to develop a more sustainable local audit market.**

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- **commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;**
- **commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;**
- **proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;**
- **working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;**
- **establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;**
- **using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;**
- **maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;**
- **undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and**
- **sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.**

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing

both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO²), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

² MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Procurement Strategy

Our [procurement strategy](#) sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

Minimum Audit Fees

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

Standardised fee variations

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

Approach to social value in the evaluation of tenders

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being "*calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed*".

Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the [webinar series](#) can be found on our website.

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- district councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psaa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psaa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.